EXHIBIT 18

EXHIBIT 11

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U.S. Department of State

Diplomacy in Action

Bureau of Economic and Business Affairs (/e/eb/)

Investment Climate Statements for 2016

Russia

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Russia

Permalink: **http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2016&dlid=254409 (http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2016&dlid=254409)**

Executive Summary

American firms seeking to invest in the Russian Federation should be aware that the Russian investment climate continues to be marked by high levels of uncertainty, corruption, and political risk, making thorough due diligence and good legal counsel essential for any potential investment. Conditions for foreign investment are unlikely to improve in the near term. Foreign direct investment flows in Russia during 2015 were USD 6.7 billion, a decline of 92 percent from the figure two years earlier, according to the UN Conference on Trade and Development. This decline in investment reflected the increased risks that investors faced when doing business in Russia.

Russia's real gross domestic product (GDP) contracted by 3.7 percent in 2015. The International Monetary Fund expects a further 1 percent contraction in 2016. The fall in the global price of oil has hit Russia's economy hard: oil and gas production has traditionally accounted for approximately 20 percent of GDP, two-thirds of exports, and half of federal government revenues. The Russian ruble also depreciated 55 percent against the U.S. dollar through 2015. Capital outflows in 2015 decreased to USD 57 billion, after a peak of USD 151.5 billion in 2014.

Russia's attempted annexation of Crimea in March 2014 is not recognized by the U.S. government. U.S. investors in Russia must ensure they are in full compliance with U.S. sanctions on designated Russian firms and individuals. These measures include a prohibition on the refinancing of debt beyond 30-days on sanctioned entities, restrictions on the export to Russia of certain kinds of equipment for the energy sector, and a complete ban on doing business with those entities or individuals identified by the U.S. Treasury Department as "specially designated nationals." Specific sanctions designations are available on the U.S. Treasury's website: www.treasury.gov.

Long-standing concerns about the rule of law in Russia persist. Several new laws in 2015 gave the Russian Constitutional Court new powers to disregard foreign arbitral decisions, while 2014 changes to the Russian high court have cast doubts on its ultimate autonomy. Russia's judicial system is heavily biased in favor of the state, leaving investors with little recourse in the event of a legal dispute with the government. High levels of corruption in the Russian government compound this risk.

Economic activity carried out by state-owned enterprises (SOEs) is estimated to comprise over half of Russia's GDP. Most government initiatives in 2015 point to a stronger government influence in SOE activities, including placing senior government officials on major SOE boards, dictating the percentage of SOE purchasing that must come from small and medium enterprises, and requiring Russian-made equipment purchases for government-funded projects. Regulations require Russian government approval for foreign firms to invest in "strategic sectors" and, in some cases, ban majority foreign ownership.

Though a policy goal prior to Russia's 2014 attempted occupation of Crimea and aggression in Ukraine, import substitution has subsequently become a central tenet of Russian government policy, with the aim of shifting Russia's reliance on imported products to goods either produced domestically or by "friendly" nations. The Russian government hopes to achieve a higher level of self-reliance through a combination of localization and procurement restrictions. The most attractive sectors for foreign investment in Russia historically include wholesale and retail trade, finance and insurance, manufacturing, and mining. In 2015, the Central Bank of Russia created a national payment card system (NSPK) to process all domestic credit card transactions for Russian cardholders. International payment card systems continue to process the domestic transactions of foreign cardholders and the international transactions of Russian cardholders. Russia also enacted a new law in 2015 that requires all companies processing the personal data of Russian citizens to store that data on servers located in Russia.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	119 of 167	**transparency.org/cpi2015/results (http://transparency.org/cpi2015/results)**
World Bank's Doing Business Report "Ease of Doing Business"	2015	51 of 189	**doingbusiness.org/rankings (http://doingbusiness.org/rankings)**
Global Innovation Index	2015	48 of 143	**globalinnovationindex.org/content/page/data-analysis (http://globalinnovationindex.org/content/page/data-analysis)**
U.S. FDI in partner country ($B USD, stock positions)	2014	$9.2	BEA FDI stock in Russia
World Bank GNI per capita	2014	$13,220	**data.worldbank.org/indicator/NY.GNP.PCAP.CD (http://data.worldbank.org/indicator/NY.GNP.PCAP.CD)**

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1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Russian President Vladimir Putin told foreign investors in June 2015, "Russia always wants to be an open and friendly country to all those who want to run their business here." Russia's primary approach to attracting foreign direct investment (FDI) has been to pass a variety of measures intended to induce companies to localize their production in Russia. President Putin signed the Industrial Policy Law (No. 488-FZ) in December 2014, which stipulates preferences for Russian-made products in government procurement and major government-funded projects; the law also "recommends" similar preferences for purchasing by state-owned enterprises (SOE). The law also provides for special investment contracts, which would guarantee some preferential treatment for foreign companies that localize production of an item not currently made in Russia.

Most sectors of the economy are open to foreign investment, though there are ownership restrictions in strategic sectors. The Strategic Sectors Law (FZ-57) stipulates 45 activities for which foreign investment requires government approval (see Limits on Foreign Control below). Foreign ownership in air transportation, financial services, insurance, media, and agricultural land is also restricted.

Other Investment Policy Reviews

The Organization for Economic Cooperation and Development (OECD) conducted an Investment Policy Review of Russia in 2010-2012, in the context of Russia's attempt to become an OECD member, based on the OECD Policy Framework for Investment.

Laws/Regulations on Foreign Direct Investment

While a legal structure exists to support foreign investors, the laws are not always enforced in practice. The 1991 Investment Code and 1999 Law on Foreign Investment (FZ-160) guarantee that foreign investors enjoy rights equal to those of Russian investors, although some industries have limits on foreign ownership (see Right to Private Ownership and Establishment below). Russia has sought to enhance consultation mechanisms with international businesses (for example, through the Foreign Investment Advisory Council, whose members are the chief executives of large companies) regarding the impact of the country's legislation and regulations on the business and investment climate. In 2012, President Putin created the position of Ombudsman for Entrepreneurs' Rights as an additional measure of protection and advocacy for entrepreneurs. The court system and particularly the Investigative Committee, a body directly under the president of the Russian Federation charged with legal oversight of government agencies, are subject to political interference that may affect foreign investments. In addition, the country's investment dispute resolution mechanisms can be non-transparent and unpredictable (see Dispute Settlement section).

Business Registration

Russia's business registration website, www.nalog.ru (in Russian), is operated by the Federal Tax Service (FTS). The online registration process is clear, comprehensive, and open to foreign companies, but requires receiving an electronic signature from one of the certification centers designated by the Ministry of Telecom and Mass Communications to submit an application electronically. A company must register with a local FTS Office; application documents can be hand-delivered, sent by mail or submitted electronically. According to Law FZ-129 of 2001, the business registration process must not take more than five days. Foreign companies may be required to notarize the originals of incorporation documents included in the application package.

The Russian Direct Investment Fund (RDIF) was established in 2012 to attract foreign direct investment into the Russian economy. The RDIF co-invests up to 50 percent of ownership in individual projects with foreign investors. The services of the fund are available to co-investors meeting one of the following criteria: more than USD 1 billion worth of assets under management, market capitalization of over USD 1 billion, or a turnover exceeding USD 1 billion, and earnings before interest, taxes, depreciation and amortization (EBITDA) over USD 150 million.

According to Russian legislation, businesses qualify as medium-sized enterprises if they employ 101 to 250 people and have annual revenues, less value-added tax (VAT), of 2 billion rubles (USD 27.4 million) or less. Small enterprises are defined as businesses and sole proprietors that employ 16 to 100 people and whose annual revenues do not exceed 800 million rubles (USD 11 million). Microenterprises are defined as businesses and sole proprietors employing not more than 15 persons and whose annual revenues are under 120 million rubles (USD 1.6 million).

Limits on Foreign Control and Right to Private Ownership and Establishment

Russian government officials have repeatedly stressed that foreign investment and technology transfer are critical to Russia's economic modernization. At the same time, the government continues to limit foreign investment in sectors deemed to have strategic significance for national defense and state security via the Strategic Sectors Law of 2008 (FZ-57). The law originally specified 42 activities and has since been amended on six separate occasions. As of April 2015, 45 activities require government approval for significant foreign investment. Foreign investors wishing to increase or gain ownership above certain thresholds need to seek prior approval from the government commission described below.

On October 15, 2014, President Putin signed a law "On Mass Media," (FZ-305) which restricts foreign ownership of any Russian media company to 20 percent. Previously only Russia's broadcast sector was subject to a 50 percent foreign ownership limit. The new law took effect on January 1, 2015, and media owners have until February 1, 2017, to adjust their ownership structures. The law prompted the sale in November 2015 of the leading business paper *Vedomosti* by its three foreign owners (Dow Jones, Pearson, and Finnish publishing house Sanoma), and has further heightened concern of media consolidation and government influence.

Privatization Program

Due to federal budget constraints in 2016, privatization plans have become a priority, albeit with little action as of March 2016. The Federal Property Management Agency (Rosimushchestvo) reported that revenues generated from the privatization of state-owned property in 2015 (the so-called "mass privatization," not involving the largest state-owned companies) amounted to only 7.39 billion rubles (USD 104 million), as nearly 80 percent of the auctions were invalidated for lack of demand caused by "high volatility of

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financial markets and borrowing costs."

The 2013 Privatization Program for state-owned enterprises (SOEs) fell behind its original schedule for 2014-2016. Most of the sales were supposed to involve the sale of minority share positions, privatization through dilution of shares rather than divestment, and retention of "golden shares" that maintain government veto power on company boards. In June 2014, Prime Minister Dmitriy Medvedev approved the "Plan to Implement State Programs on Federal Property Management in 2014-2016," in which the Russian government laid out concrete annual plans to decrease its ownership in various companies. However, plans to decrease state ownership in such companies as the national rail monopoly Russian Railways by 5 percent, commercial shipping company Sovkomflot by 25 percent, and the flag carrier airline Aeroflot by 1.2 percent by the end of 2014 did not materialize.

According to a March 2015 report issued by Russia's Accounting Chamber, an auditing body under the country's parliament, Russia had fully or partially privatized 1,180 joint-stock companies and 274 federal unitary enterprises between 2010 and 2014. Privatization proceeds for the period, however, amounted to only 21 percent of the planned total, as the bulk of the privatization program was postponed. The main reasons for the postponement was low asset prices, compounded by Russia's economic downturn and Western sanctions imposed on the country.

Russia also established a separate list of strategic companies that includes the largest and most profitable Russian firms via Executive Order No. 1009 of August 4, 2004. Companies identified on this list have some level of government ownership; the Executive Order sets forth the requirements for privatizing these firms. The 2012 addition of privately held, Russian internet company Yandex to the strategic companies list highlighted the government's broad interpretation of what is required to protect state security and national defense.

To date, treatment of foreign investment in new privatizations has been inconsistent; at times, and foreign participation has been confined to minority stakes. Subsequently, many investors have faced problems with inadequate protection for minority shareholders and corporate governance. Potential foreign investors are advised to work directly and closely with appropriate local, regional, and federal agencies that exercise ownership or authority over SOEs whose shares they may want to acquire. (See State-Owned Enterprises)

Screening of FDI

Established in 2008, the Government Commission on Monitoring Foreign Investment screens FDI in Russia. The type of industry for a proposed investment and not a threshold level of investment triggers a review by the Commission. The Commission scrutinizes foreign investment in businesses that have strategic importance for national defense and security. The Prime Minister is the Chairman of the Commission, ex-officio. Since 2008, the Commission has received 395 applications for foreign investment (as of March 11, 2016). Of that total number, 150 were recognized as transactions for which approval was not required; 43 applications were withdrawn by applicants; and seven had not been completed. Of the 195 applications that the Commission reviewed, 183 were approved (93.8 percent), including 49 with certain conditions. Only 12 applications (6.2 percent) were rejected.

Competition Law

The current regulation on the Federal Antimonopoly Service (FAS) was adopted by the Russian government in July 2004. The stated primary goal of the agency is to enhance development of competition in the economy and financial services market. Since 2004, control over the activity of natural monopolies and observance of the legislation on advertising has been delegated to FAS.

The Federal Antimonopoly Service has been criticized for being overly aggressive, particularly toward small and medium enterprises (SMEs). In 2013, FAS reviewed over 55,000 cases – more than all other national anti-monopoly agencies worldwide. Over one-third of the cases investigating abuse of market position were against SMEs, often in rural areas where the local market demand could not support multiple businesses. Only 11 percent of cases reviewed by FAS involved major market players that fell within the top 100 Russian companies in terms of annual revenue. The fourth anti-monopoly package law, passed in October 2015, increased the annual sales threshold below which Russian companies would not be recognized as dominant regardless of their market share and entered into force in January 2016. FAS expects that under the new law, annual sales of about 80 percent of all Russian SMEs will fall below the new threshold, leaving only 20 percent of SMEs subject to FAS antimonopoly regulation.

In March 2015, President Putin signed into law amendments to Article 178 of the Criminal Code aimed at reducing pressure both on small businesses and major market players, further liberalizing Russia's antitrust laws. Article 178 imposes liability on competing business entities for: (1) non-admission, restriction, or elimination of competition by entering into agreements that restrict competition (cartels) or by abusing repeatedly their dominant positions by fixing and/or maintaining monopolistic high or monopolistic low prices for goods; (2) unreasonable refusal to conclude or avoidance of concluding an agreement; and (3) restriction from entering a market, provided such actions cause major damage to individuals, companies, or the state or involve high profits. The amendments changed the definitions of "high profits" and "major damage" by increasing the minimum monetary amounts that constitute a violation, thus avoiding criminal prosecution in the majority of cases that involve SMEs.

2. Conversion and Transfer Policies

Foreign Exchange

While the ruble is the only legal tender in Russia, companies and individuals generally face no significant difficulty in obtaining foreign exchange. Only authorized banks may carry out foreign currency transactions, but finding a licensed bank is not difficult. According to Russia's currency control laws, the Central Bank of Russia retains the right to impose restrictions on the purchase of foreign currency, including the requirement that the transaction be completed through a special account. The Central Bank does not require security deposits on foreign exchange purchases. Russia has no capital controls, and there are no barriers to remitting investment returns abroad, including dividends, interest, and returns of capital. Nonetheless, investors should seek expert advice at the time of an investment.

Currency controls exist on all transactions that require customs clearance, which, in Russia, applies to both import and export transactions and certain loans. A business must open a "deal passport" with the authorized Russian bank through which it will receive and service the transaction or loan. A "deal passport" is a set of documents that importers and exporters provide to an authorized bank which enables the bank to monitor payments with respect to the transaction or loan and to report the corporation's compliance with currency control regulations to the Central Bank. Russia's regulations regarding deal passports are prescribed under Instructions of the Central Bank of Russia No. 117-I of June

15, 2004. In early 2011, the Central Bank of Russia expanded the list of grounds under which a deal passport does not need to be submitted. On June 4, 2012, the Central Bank issued Instruction Number 138-I, which introduced some changes to the regulation. In particular, an authorized bank is no longer required to submit additional documentation if the authorized bank is debiting money for a currency operation from an existing bank account of a resident or non-resident. In case of multilateral agreements with multiple parties and participation of non-residents, only one resident deal participant is obligated to execute a deal passport for this agreement rather than all resident parties being required to submit documentation. The Central Bank further amended the regulation by issuing Directive No. 3016-U of June 14, 2013, which came into effect in the fall of 2013. A deal passport is now needed only if the value of the underlying contract is equal to or exceeds the equivalent of USD 50,000.

Effective 2016, the Central Bank introduced tighter regulation for cash currency exchanges: a client must provide his full name, passport details, registration place, date of birth and taxpayer number, if the transaction value exceeds 15,000 rubles (approximately USD 200). The declared purpose of this regulation is to combat money laundering and terrorist financing.

Remittance Policies

There are no restrictions or limitations on investment remittances in Russia. Banking contacts confirm that investors have had no issues with remittances and in particular with repatriation of dividends.

Since November 2014, the Central Bank has employed a floating exchange rate regime. This means there is no exchange rate target and no operational band or predetermined interventions in the currency market by the Central Bank. The Central Bank, however, reserves the right to intervene "in case of a sharp increase of financial stability risks."

The Russian Federation is a member of the Financial Action Task Force (FATF), the international body to combat money laundering. Russia is assessed by FATF, the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval, part of the Council of Europe). Russia was listed as a country of primary concern in the U.S. Department of State's International Narcotics Control Strategy Report for 2015.

3. Expropriation and Compensation

President Putin created a working group to address business concerns about law enforcement pressure on business in February 2016. Out of 200,000 economic crime cases initiated in 2014, only one-quarter went to court, and a total of 31,000 cases were concluded in court. Despite the small proportion of cases decided in court, over 80 percent of the individuals whose cases were dropped lost their businesses in the process. There is little recourse for Russian businesses caught in the legal system.

The re-nationalization of the oil company Bashneft in 2014 was a high-profile illustration of many of the challenges faced by private business in Russia. Prior to September 2014, the privately owned Russian conglomerate AFK Sistema owned a majority stake in Bashneft, Russia's sixth largest oil producer. In July, a district court in Russia froze AFK Sistema's Bashneft shares just prior to the oil company's much-touted London public offering, which would have diluted the company's ownership among foreign investors. The Russian government transferred Sistema's shares in Bashneft to the state while the majority owner, Vladimir Yevtushenkov, was temporarily placed under house arrest.

The 1991 Investment Code prohibits the nationalization of foreign investments, except following legislative action and where deemed to be in the national interest. Such nationalizations may be appealed to Russian courts, and the investor must be adequately and promptly compensated. At the sub-federal level, expropriation has occasionally been a problem, as has local government interference and a lack of enforcement of court rulings protecting investors.

4. Dispute Settlement

The Russian legal system includes both Administrative and Criminal Codes. Economic crimes fall under both codes, although officials have recently promised to revise the criminal code to reduce punishment for fraud and other economic crimes. The single greatest complaint of major foreign businesses operating in Russia is the unstable regulatory environment in Russia, according to a June 2015 study. In 2014 and 2015, over 40 changes to the Criminal Code were instituted with respect to business operations. Russia has conflicting, overlapping, and frequently changing laws, decrees, and regulations, which complicate the environment for dispute resolution. Independent dispute resolution in Russia can be difficult to obtain since the judicial system is often ineffective. Courts are sometimes subject to political pressure. According to numerous reports, corruption in the judicial system is widespread and takes many forms, ranging from bribery of judges and prosecutors to the fabrication of evidence. Some companies write foreign arbitration clauses into contracts in order to minimize the role of the Russian legal system.

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The Russian Supreme Court oversees criminal and civil cases as well as commercial cases, which were the purview of a separate Higher Arbitrage Court until June 2014. As of March 2016, only two-thirds of the judge positions on the economic collegium were staffed (21 out of 30). The procedure for selecting Supreme Court judges following the merger excluded most of the former Supreme Arbitrage Court judges.

Commercial arbitration courts are required by law to decide business disputes relatively quickly, and many cases are decided on the basis of written evidence and little or no live testimony by witnesses. The arbitration court workload is dominated by relatively simple non-contentious cases involving the collection of debts and firms' disputes with the taxation and customs authorities, pension fund, and other state organs. Tax-paying firms often prevail in their disputes with the government in court. The number of routine cases limits the time available to decide more complex cases. The court system has special procedures for the seizure of property before trial, so that it cannot be disposed of before the court has heard the claim, as well as procedures for the enforcement of financial awards through the banks. As with international arbitral procedures, the weakness in the Russian arbitration system lies in the enforcement of decisions. Few firms pay judgments against them voluntarily. Rumors of corruption concerning bailiffs, who are charged with enforcing decisions, are frequent, although hard evidence is scarce.

Federal Law 262, in effect since 2010, requires courts to publish their decisions online and otherwise make information about their activities publicly available. All Russian courts now have websites, which generally include a schedule of cases to be heard, the name of the judge, the location of the court, forms that can be used by prospective litigants, and copies of decisions.

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A specialized court for intellectual property (IP) disputes opened in July 2013. The IP Court hears matters pertaining to the review of decisions made by the Russian Federal Service for Intellectual Property (Rospatent) and determines issues of IP ownership, authorship, and the cancellation of trademark registrations. It also serves as the court of second appeal for IP infringement cases decided in arbitration (commercial) trial courts and courts of appeal.

Bankruptcy

Russia has had a law providing for bankruptcy of enterprises since the early 1990s. Corporate bankruptcies often involve criminal acts. A law on personal bankruptcy came into force on October 1, 2015. While Russia improved its overall rank in the World Bank's "Doing Business 2016" report to 51st from 54th in the previous year, it slipped to 51st from 44th in the report's "Resolving Insolvency" category.

Investment Disputes

Available information indicates that 13 investment disputes have involved a U.S. person since 2006. The U.S. Embassy in Moscow does not track disputes lodged by foreign investors. To address some of the challenges facing the business community, the Russian government created the Office of the Ombudsman for Entrepreneur Rights in 2012. The Ombudsman's remit includes advocating for foreign and domestic business rights in court and requesting suspension of official actions if a business feels its rights were violated. Each Russian Federal District also has an Investment Ombudsman who reports to the national Ombudsman and oversees efforts to improve the business climate, including the protection of foreign and domestic investors. The government has also encouraged international business leaders, as part of their work in the Russian government's Foreign Investment Advisory Council, to participate in the discussion of dispute resolution mechanisms and individual commercial disputes. While these steps offer some promise, overall, the country's investment dispute mechanisms remain underdeveloped and largely non-transparent.

International Arbitration

Some attorneys refer Western clients who have investment or trade disputes in Russia to international arbitration bodies in Stockholm, London, The Hague, or other courts abroad. A 1997 Russian law allows foreign arbitration awards to be enforced in Russia, even if there is no reciprocal treaty between Russia and the country where the order was issued. Russian law was amended in 2015 to give the Russian Constitutional Court authority to disregard verdicts by interstate bodies if it determines the ruling contradicts the Russian constitution. Historically, Russia accepted binding international arbitration. However, international arbitral awards still required enforcement by domestic courts and bailiffs to attach assets. Russian courts have yet to become consistently effective enforcers of court judgments, whether domestic or international.

Investors of the now-defunct Yukos oil company won two major claims in foreign courts against the Russian Federation in 2014. In July 2014, the Permanent Court of Arbitration in The Hague awarded Yukos investors USD 50 billion, and a separate case in the European Court of Human Rights awarded shareholders approximately USD 2 billion. Shareholders are now seeking to enforce the claims through the legal system in Russia as well as in other countries.

In July 2015, the Russian Constitutional Court determined that the European Court of Human Rights ruling against Russia on behalf of former Yukos investors contradicted the Russian constitution and therefore was not binding. In December 2015, President Putin signed a law validating the Russian Constitutional Court's authority to determine whether to implement verdicts by interstate bodies, if the Court finds that the case is incompatible with the Russian Constitution.

ICSID Convention and New York Convention

Russia is party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. While Russia does not have specific legislation providing for enforcement of the New York Convention, Article 15 of the Constitution specifies that, "the universally recognized norms of international law and international treaties and agreements of the Russian Federation shall be a component part of [Russia's] legal system. If an international treaty or agreement of the Russian Federation fixes other rules than those envisaged by law, the rules of the international agreement shall be applied." Russia is a signatory but not a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID).

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Russia joined the World Trade Organization on August 22, 2012. At that time, Russia agreed that all of its laws, regulations, and other measures concerning matters covered in the Trade-Related Investment Measures (TRIMS) provisions of the WTO Protocol would be consistent with its WTO commitments. Certain measures were subject to a limited transition period.

As part of its WTO Protocol, Russia agreed to eliminate by July 2018 the elements of the automotive assembly investment incentive regimes initiated in 2005 and 2010 that are inconsistent with the TRIMS Agreement, and to begin consultations in July 2016 with the United States and other WTO members on WTO-consistent measures it could take in this sector. The United States will continue to monitor Russia's administration of these programs and its efforts to bring them into compliance with its WTO obligations. Additionally, the United States has monitored possible local content requirements by a government-owned agricultural equipment leasing company, RosAgroLeasing, as well as Russian programs that support domestic production at the expense of imports, in order to ensure Russia's compliance with its international obligations.

Investment Incentives

President Putin signed a law on public-private-partnerships (FZ-224) in July 2015 to fill a gap in regulations in order to develop needed infrastructure with private support. Also in 2015, the Russian government issued implementing regulations for Special Investment Contracts, which foreign and domestic companies can use in order to introduce manufacturing of products not currently produced in Russia or the Eurasian Economic Union.

Research and Development

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Russia continues to promote the use of high-tech parks, special economic zones, and industrial clusters which offer additional tax and infrastructure incentives to attract investment. The flagship project, the Skolkovo Innovation Center, was designed to be the Russian equivalent of Silicon Valley and was assured funding through 2015. Subsequent funding remains uncertain. Skolkovo "resident companies" can receive a broad range of benefits, including exemption from profit tax, value-added tax, property tax, and import duties, and partial exemption from social fund payments. Applicants for residency are evaluated and selected by an international admission board; company performance is monitored to ensure continued qualification for benefits.

Performance Requirements

Performance requirements are not generally imposed by Russian law and are not widely included as part of private contracts in Russia. They have appeared, however, in the agreements of large multinational companies investing in natural resources and in production-sharing legislation. There are no formal requirements for offsets in foreign investments. Since approval for investments in Russia can depend on relationships with government officials and on a firm's demonstration of its commitment to the Russian market, these conditions may result in offsets in practice.

In certain sectors, the Russian government has pressed for localization and increasing local content. This was the case in auto manufacturing before Russia joined the World Trade Organization in 2012. Russia is currently considering local content requirements for industries that have high percentages of government procurement, such as medical devices or pharmaceuticals. Russia is not a signatory to the WTO's Government Procurement Agreement. Consequently, restrictions on public procurement have been a major avenue for Russia to implement localization requirements without running afoul of international commitments. Several new laws in 2015 have expanded the localization requirements to purchases by state-owned enterprises, particularly for major projects receiving government funding. The Russian government instituted an import-substitution drive in response to Western sanctions imposed on Russia in 2014 for its aggression in Ukraine. The Russian government also blocked the import of certain agricultural and food products, in addition to some other items, from countries that had imposed sanctions on Russia.

The Central Bank of Russia has imposed caps on the percentage of foreign employees in foreign banks' subsidiaries. The ratio of Russian employees in a subsidiary of a foreign bank is set at no less than 75 percent. If the executive of the subsidiary is a non-resident of Russia, at least 50 percent of the bank's managing body should be Russian citizens.

Data Storage

Law FZ-242 has required firms to handle and store personal data of Russian citizens on local servers since September 1, 2015. According to its authors, the goal of the law is to increase state security by protecting the personal data of Russian individuals. Companies that violate the law are subject to restricted access to their websites and/or fines imposed by the mass communications regulator Roskomnadzor. Virtually all Russian and foreign firms have expressed concerns about the law, due to its extremely broad and poorly defined provisions and absence of implementing regulations or clarification from the government about the scope of the law. Even though the law's implementation has resulted in increased overhead costs for companies, sufficient data storage appears to be available for compliance, and Roskomnadzor has reportedly identified few violations in its data localization compliance inspections.

The Ministry of Economic Development and the Ministry of Industry and Trade set the parameters for determining what constitutes domestic telecommunications equipment and, therefore, what equipment could be used in specified applications or projects. In order to qualify, a company that manufactures telecommunications equipment must be incorporated in Russia and at least 50 percent owned by a Russian party or entity. Also, the manufacturer must have the legal rights to the technology and software it uses, possess its own production base, manufacture printing boards, and carry out final assembly of the telecommunications equipment in Russia.

6. Protection of Property Rights

Real Property

The Russian Constitution, along with a 1993 presidential decree, gives Russian citizens rights to own, inherit, lease, mortgage, and sell real property. The state owns the majority of Russian land, although the structures on the land are typically privately owned. Mortgage legislation enacted in 2004 facilitates the process for lenders to evict homeowners who do not stay current in their mortgage payments. Thus far, this law has been successfully implemented and is generally effective. In 2014, mortgage lending grew by 30 percent compared to 2013, with new issuances amounting to USD 31.4 billion. The number of mortgage loans issued increased by 20 percent year-on-year. As a measure to respond to the current economic downturn, the government recently approved a program of mortgage loan rate subsidies for purchases of new middle-income housing. According to the program, for which 20 billion rubles (USD 345 million) has been allocated in the budget, the government will compensate banks for capping their interest rates at 12 percent for mortgages originated between March 1, 2015, and March 1, 2016.

Russian law places two restrictions on land ownership by foreigners. Land located in border areas or other specifically assigned territories may not fall under foreign ownership, according to Article 15 of the Land Code. Foreign citizens and foreign legal entities cannot own more than 50 percent of a plot of agricultural land according to FZ-101 of 2002, "On Turnover of Agricultural Land." Instead, foreign companies typically lease land for up to 49 years, although an Agriculture Ministry proposal from September 2015 would significantly curtail the maximum length of leases for agricultural land. Russian law distinguishes between land and structures located on it, treating them as separate legal interests.

One recent high-profile example in Moscow serves as a cautionary tale to investors to ensure compliance with local regulations. On the night of February 8, 2016, the Moscow city government demolished nearly 100 businesses near the city's metro stations, many of which had been in operation for over 20 years, for violating municipal regulations on building codes and land use. Some businesses had initiated court cases to fight the demolition notifications, which had been issued in December 2015, and others have subsequently filed suit for compensation since the demolition of the buildings.

Intellectual Property Rights

Russia is included on the 2015 Special 301 Priority Watch List due to continued significant challenges to intellectual property rights (IPR) protection, notably a continued decline in enforcement efforts against many forms of IPR infringement. Additionally, Rutracker, Rapidgator, and vKontakte are Russian websites listed in the 2015 Notorious Markets list.

In Russia, the protection of IPR is enforced on the basis of civil, administrative, criminal, or customs legislation. The Civil Code sets up the statutory damages for IPR infringement and/or incurred damages for copyright, trademarks and geographical indications. The Code of Administrative Offenses concerns IPR infractions that violate public or private interest or rights, but do not meet the criteria of the Criminal Code. An administrative investigation may be initiated at the request of an IPR owner or by law enforcement authorities (police or Customs) suspecting possible IPR infringement. General jurisdiction courts or state arbitration (commercial) courts that have jurisdiction over economic disputes deal with administrative cases. The IPR provisions of the Criminal Code apply to large-scale infringements of copyright, patent and trademark rights that cause gross damages, as defined by the Criminal Code.

The United States Government continues to highlight to the Russian government the necessity to improve intellectual property enforcement. Enforcement actions combatting end-user piracy continued to decline over the past year, including a decrease in raids, initiations of criminal cases, and issuances of court verdicts. Industry representatives have recommended that the Russian government strengthen administrative penalties to serve as effective deterrents and increase political will to combat piracy more effectively. Additionally, in December 2014, Russia amended the Law on Circulation of Medicines to allow the submission of registration materials and data that should be protected under regulatory data protection for "follow-on" drugs three years after the reference drug's marketing authorization in the case of small-molecule drugs and four years after the reference drug's marketing authorization for generics. Industry representatives see this "4+2" and "3+3" scheme as a significant weakening of protection for that data as well as a potential violation of Russia's WTO obligations.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

Contact list of Russian lawyers: **http://moscow.usembassy.gov/attorneys.html (http://moscow.usembassy.gov/attorneys.html)**

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7. Transparency of the Regulatory System

Russia's legal system remains in a state of flux, with various parts of the government continuing to implement new regulations and decrees on a broad array of topics, including the tax code and requirements related to regulatory and inspection bodies. Negotiations and contracts for commercial transactions, as well as due diligence processes, are complex and protracted. Investors must do careful research to ensure that each contract fully conforms to Russian law. In some cases, Russian law has contradictory provisions. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees, and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government, and jurisdictions interpret and apply regulations inconsistently and the decisions of one may be overruled or contested by another. As a result, reaching final agreement with local political and economic authorities can be a long and burdensome process. Companies should be prepared to allocate sufficient funds to engage local legal counsel to set up their commercial operations in Russia.

Taxes: Russia's tax system has recently undergone major changes. The Russian government has brought its tax legislation into line with OECD requirements, which has simplified the system and prevents double taxation on transfer prices. However, businesses continue to raise concerns regarding audits. Multiple audits, repeated requests for documentation, and technical weaknesses of some claims have been identified as serious impediments to the conduct of business. A 2014 law restored the power of police and prosecutors to initiate tax cases even if the State Tax Authority has not determined the existence of a tax violation, raising concerns this change could lead to abuses and corruption.

Public Comment: All draft laws that go through the Russian Duma are published on the Duma's website. Sometimes, but not consistently, ministries and other Russian government bodies also publish proposed legislation (including draft laws, government decrees, and regulations) on their websites. The scope of Russia's Open Government initiative was severely reduced after the Russian government announced in May 2013 that it would no longer be a part of the international Open Government Partnership due to unspecified differences regarding the terms of the partnership. Russian ministries have become more active in seeking input from industry experts and business groups, including the government's Foreign Investment Advisory Council, when developing business-related laws and regulations.

Russia is a member of UNCTAD's international network of transparent investment procedures, available at **http://moscow.eregulations.org/ (http://moscow.eregulations.org/)**. Foreign and national investors can find information on administrative procedures applicable to investment and income generating operations, including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time, and legal bases justifying the procedures. However, this website does not appear to be fully functioning or regularly updated.

8. Efficient Capital Markets and Portfolio Investment

Russia's two main stock exchanges – the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) – merged in December 2011. The MICEX-RTS bourse conducted an initial public offering on February 15, 2013, auctioning an 11.82 percent share. Russian authorities and shareholders of MICEX and RTS believe the merged entity, now branded the Moscow Exchange, has the potential to become a global player. While most large Russian companies currently choose to list their stocks in London and elsewhere outside Russia, the Russian government has begun a campaign to encourage state-owned companies to use the Moscow Exchange as a vehicle for privatization. The imposition of sanctions against financial entities and the slowing of the Russian economy have dampened enthusiasm for the Moscow Exchange to serve as a domestic source of funding.

The Law on the Securities Market includes definitions of corporate bonds, mutual funds, options, futures, and forwards. Companies offering public shares are required to disclose specific information during the placement process as well as on a quarterly basis. In addition, the law defines the responsibilities of financial consultants who assist companies with stock offerings and holds them liable for the accuracy of the data presented to shareholders.

Russian financial authorities are attempting to deepen the ruble-denominated domestic debt market to make it more attractive to foreign investors. In December 2011, the Central Bank issued a resolution allowing, effective January 1, 2012, government bonds (OFZs) to be traded outside Russian exchanges (over the counter). In February 2013, Euroclear and Clearstream, two international securities depositories, began settling transactions of OFZ bonds, Russia's primary sovereign debt security. Euroclear and Clearstream have since also begun settling transactions of Russian corporate and municipal debt, and in the second half of 2014, first Clearstream and later Euroclear started settling Russian equities. This has increased access to Russian securities markets for foreign investors by negating the need to have onshore brokerage and custody accounts.

Money and Banking System, Hostile Takeovers

Banks continue to make up a disproportionate share of Russia's financial system. Although Russia had 728 banks with a valid license on February 1, 2016, the sector is dominated by state-owned banks, particularly Sberbank and VTB Group. Five out of Russia's largest banks in terms of assets are state-controlled (with private banks Otkritie and Alfa Bank ranked fifth and seventh, respectively). The top five banks held 54.2 percent of all bank assets in Russia as of February 1, 2016. The role of the state in the banking sector continues to distort the competitive environment, impeding Russia's financial sector development. At the beginning of 2016, aggregate assets of the banking sector amounted to 103 percent of GDP, and aggregate capital was 11.2 percent of GDP. Russia's banking sector has been suffering from restricted access to international capital markets due to sanctions, the fall in global oil prices, ruble depreciation, and economic recession. Russian banks reportedly still operate on short time horizons, limiting capital available for long-term investments. In 2015, the sector capital adequacy was supported through the Russian government's 830 billion ruble bank recapitalization program covering 27 banks representing more than 80 percent of total banking assets. A tight fiscal situation may not allow additional recapitalization in 2016, which will likely lead to a decline in capital adequacy.

On September 1, 2013, the Central Bank of Russia became the consolidated financial markets regulator (replacing the Federal Financial Markets Service) for Russia's capital markets and financial institutions. The Central Bank has closed down a growing number of banks since Elvira Nabiullina became its Governor in June 2013 and began tightening oversight of banks and reining in shadow banking activity. The Central Bank revoked licenses from 226 banks between June 2013 and March 2016, with many banks cited for violating anti-money laundering or anti-terrorist financing (AML/CFT) laws. This effort has advanced not only much-needed banking sector consolidation but also the weeding out of bad banks that were complicit in money laundering and in facilitating "dubious transactions" that have characterized capital outflows from Russia.

To fill the gap in capital available for long-term investments, authorities have also sought to improve the regulatory environment for non-bank institutional investors. This has had some success, though non-bank financial institutions remain small relative to the size of the financial sector. Pension funds were once viewed as the most promising source of long-term capital. Pension funds have had strong inflows, in recent years, though they have shown little risk appetite, primarily investing in sovereign debt, corporate debt, and bank deposits, thus limiting their utility as a source of long-term capital. A decision by the government in late 2013 to reallocate employer contributions to pension programs designed for investment in private investment funds (so-called "funded pensions") has undermined confidence in the pension fund industry. As of 2016, the funded pension program remained frozen for the third year in a row, and the government is considering extending the freeze into 2017.

9. Competition from State-Owned Enterprises

According to the latest government list, Russia has approximately 4,100 state-owned enterprises (SOEs), which play a prominent role across much of the Russian economy. The public sector accounted for a considerable share of economic activity with revenues of at least 71 percent of GDP, expenditures of at least 68 percent of GDP, and an estimated surplus of 3 percent of GDP in 2014. Russia is not yet party to the WTO Government Procurement Agreement, which would have an impact on the benefits enjoyed by SOEs in Russia. The Russian government appears to be increasing state control over the country's leading economic institutions as the economy continues to weaken.

The Russian government owns controlling stakes in major Russian energy firms and plays a large role in the energy sector. For example, the Russian government owns a 50.23 percent stake in the natural gas firm Gazprom, which produced 67.5 percent of Russia's total natural gas output as of 2014. Similarly, the oil company Rosneft, in which the Russian state owns a 69.5 percent stake, accounted for 36.2 percent of oil output in Russia. In December 2014, Prime Minister Medvedev relaxed a 2011 regulation that had prohibited senior government officials from serving on SOE boards. Senior officials (deputy prime ministers and ministers) now have seats on the boards of the major state-owned companies Rosneft, Gazprom, Russian Railways, RusHydro, Rostelecom, Russian Grids, Bashneft, and Transneft.

The government, in its latest count in January 2013, listed 4,132 SOEs, divided into 1,795 federal unitary enterprises and government stakes in 2,337 joint-stock companies. The government also maintains a list of 176 "strategic companies" that are either wholly or partially owned by the Russian state and that cannot be privatized due to their national significance. This list includes 128 federal unitary enterprises (100 percent government-owned) and 48 joint stock companies, which have varying percentages of state ownership. A specific variant of SOE, state corporations (there are currently six: Rosatom, VEB, Fund for Communal Housing, Deposit Insurance Agency, Roskosmos, and Rostec), are 100 percent owned by the Russian government and operate under separate legislation.

Private enterprises are theoretically allowed to compete with SOEs on the same terms and conditions, and in some sectors, including those where state ownership is minimal, competition is robust. In other areas, however, the playing field can be tilted. Issues that hamper efficient operations and fair competition with SOEs include a lack of transparency, lack of independence, and unclear responsibilities of boards of directors, misalignment of managers' incentives and company performance, inadequate control mechanisms on managers' total remuneration or their use of assets transferred by the government to the SOE, and minimal disclosure requirements.

OECD Guidelines on Corporate Governance of SOEs

In 2014, the government implemented the Russian Code of Corporate Governance, which is voluntary in nature. The Federal Service for Financial Markets established a corporate governance code in 2002 and has endorsed an OECD White Paper on ways to improve corporate governance practices in Russia. International business associations such as the American Chamber of Commerce in Russia, the U.S.-Russia Business Council, the Association of European Businesses in Russia, the International Business Leaders Forum, and Russian business associations, all stress corporate governance as an important priority for their members and for Russian businesses overall. In February 2016, President Putin approved a roadmap for strategic governance created by the Agency for Strategic Initiatives.

Sovereign Wealth Funds

There are two sovereign wealth funds in Russia: the Reserve Fund (USD 49.9 billion and 4.8 percent of GDP as of March 1, 2016) and the National Wealth Fund (USD 71.34 billion and 6.8 percent of GDP on March 1, 2016). The Ministry of Finance oversees both funds' assets, while the Central Bank of Russia acts as the operational manager. Both funds are audited by Russia's Accounts Chamber (the standing body of state financial control established by Russia's parliament), and the results are reported to the Federal Assembly, Russia's parliament. The two funds have different charters, with the Reserve Fund designed to supplement federal budget deficits due to a fall in oil revenues, while the National Wealth Fund provides support for the pension system. The two funds are maintained in foreign currency, and are included in Russia's foreign currency reserves, which amounted to USD 386.9 billion as of March 18, 2016.

10. Responsible Business Conduct

While not standard practice, Russian companies are beginning to show an increased level of interest in their reputation as good corporate citizens. When seeking to acquire companies in Western countries or raise capital on international financial markets, Russian companies face international competition and scrutiny, including with respect to corporate social responsibility (CSR) standards. Consequently, most large Russian companies currently have a CSR policy in place, or are developing one, despite the lack of pressure from Russian consumers and shareholders to do so. CSR policies of Russian firms are usually published on corporate websites and detailed in annual reports. However, these CSR policies and strategies are still in an early stage relative to those of Western counterparts. Most companies choose to create their own NGO or advocacy outreach rather than contribute to an already existing organization. The Russian government is a powerful stakeholder in the development of certain companies' CSR agendas; some companies view CSR as merely financial support of social causes and choose to support local health, educational, and social welfare organizations favored by the government. One association, the Russian Union of Industrialists and Entrepreneurs, developed a Social Charter of Russian Business in 2004 in which over 200 Russian companies and organizations have since joined.

11. Political Violence

Political freedom has been significantly curtailed during the past year, including rising hostility toward almost all opposition media outlets and increasing harassment of non-governmental organizations (NGOs). In the aftermath of Russia's attempted annexation of Crimea in March 2014, nationalist rhetoric has increased markedly. New laws give the government the authority to label non-governmental organizations "foreign agents" if they receive foreign funding, greatly restricting the activities of these NGOs. As of March 2016, more than 120 NGOs have been labelled foreign agents. President Putin also signed a law (FZ-129) in May 2015 authorizing the government to designate a foreign organization as "undesirable" if it is deemed to pose a threat to national security or national interests. Five foreign organizations currently have this designation, and are banned from operations in Russia.

Although the use of strong-arm tactics is not unknown in Russian commercial disputes, the U.S. Embassy is not aware of cases where foreign investments have been attacked or damaged for purely political reasons. Russia continues to struggle with an ongoing insurgency in Chechnya, Ingushetia, and Dagestan in the northern Caucasus region. These jurisdictions and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping. More recently, the threat of terrorism in Chechnya from Da'esh has increased markedly. There have been numerous reports of Chechen fighters joining the ranks of Da'esh, and the group has issued threats against Chechen authorities.

Public protests continue to occur sporadically in Moscow and other cities. Authorities frequently do not grant permits for opposition protests, and there is usually a heavy police presence at demonstrations. The most recent large-scale protest took place on February 27, 2016, when more than 20,000 people peacefully took to the streets in Moscow to commemorate the one-year anniversary of the murder of opposition politician Boris Nemtsov. Official counts of participants at demonstrations tend to overestimate numbers at pro-government events and underestimate those at anti-government events.

12. Corruption

Despite government efforts to combat corruption, the level of corruption in Russia remains high. Russia adopted a law in 2012 requiring individuals holding public office, state officials, municipal officials, and employees of state organizations to submit information on the funds spent by them and members of their families (spouses and underage children) to acquire certain types of property, including real estate, securities, stock, and vehicles. The law also required public servants to disclose the source of the funds for these purchases and to confirm the legality of the acquisitions. Recent anti-corruption campaigns include guidance for government employees and establishment of a legal framework for lobbying. In 2014, government plans called for an education campaign for employees and students in tertiary education on bribery and the law.

The law provides criminal penalties for official corruption, but the government acknowledged difficulty enforcing the law effectively, and officials often engaged in corrupt practices with impunity. Some analysts have expressed concern that lack of depth in the compliance culture in Russia will render Russia's adherence to international treaties a formality that does not function in reality. The implementation and enforcement of the many measures required by these conventions have not yet been fully tested. In recent years, there appear to have been a greater number of prosecutions and convictions of mid-level bureaucrats for corruption, but real numbers were difficult to obtain. The areas of government spending that ranked highest in corruption were public procurement, media, national defense, and public utilities.

Russia's Investigative Committee estimated annual damages of 40 billion rubles (USD 615 million) caused by corruption, although independent estimates put the figure much higher. Investigative Committee spokesperson Vladimir Markin claimed the committee opened more than 25,000 cases involving corruption in 2014. Prosecutors charged high-level officials with corruption during the year, including two regional governors.

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Corruption is frequently associated with large construction or infrastructure projects. Russia's Federal Security Service stated in February 2016 that 5 billion rubles (USD 77 million) of defense spending was lost to corruption in 2014. The country's prosecutor general announced in July 2015 that 7.5 billion rubles (USD 115 million) had been stolen during construction of the Far East Kosmodrome. After the close of the 2014 Winter Olympic Games in Sochi, anti-corruption blogger and opposition political candidate Alexey Navalny released a detailed report alleging widespread corruption and graft among government officials and private individuals involved in construction of the Olympic venues. According to reports, the Prosecutor General's Office opened over 50 criminal cases related to the Olympic Games and has imposed administrative penalties on over 100 persons and companies since 2014.

Russia does not provide special protections for NGOs investigating corruption. Several prominent anti-corruption NGOs, including the Russia branch of Transparency International, were designated as "foreign agents" in 2015, requiring them to publish the designation on all print and online material, as well as to undergo burdensome financial and regulatory checks. Other NGOs engaged in anti-corruption have highlighted a frequent form of corruption known as "raiding," in which government or security forces apply legal pressure to business owners in an attempt to take control of legal assets.

It is important for U.S. companies, irrespective of size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance programs or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in Russia should take the time to become familiar with the relevant anticorruption laws of both Russia and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

Additional country information related to corruption can be found in the U.S. State Department's annual Human Rights Report available at http://www.state.gov/g/drl/rls/hrrpt/.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Russia is a signatory to the UN Convention against Corruption (UNCAC), the Council of Europe's Criminal Law Convention on Corruption, and, as of 2012, the OECD Anti-Bribery Convention (although Russia is not an OECD member state). Russia hosted the 2015 biannual meeting of UNCAC members (the Conference of States Parties, or COSP) in November 2015 in St. Petersburg, highlighting their hosting of the event as an indication of the success the Russian government has had in combatting corruption. Nevertheless, Russia has yet to ratify Article 20 (on unlawful enrichment) of the UNCAC, arguing that it contradicts the Russian Constitution, and the Russian government remains reluctant to allow civil society to participate in discussions on how best to combat corruption.

The OECD Convention calls for the implementation of national legislation to criminalize commercial bribery and to prohibit both offering bribes to foreign government officials and accepting such bribes. It provides no exceptions for "grease payments," and includes foreign entities doing business in Russia, meaning these entities could be subject to liability under their own country's law, as well as Russia's. The convention also calls for increasing the penalties that may be imposed upon an individual or entity found in violation. Fines and terms of incarceration contemplated by the Convention vary, depending upon the type of bribe and the official involved. During 2011-2012, Russia passed national legislation to bring itself into better compliance with its commitments under the OECD Convention and UNCAC. For example, Article 13.1 of the Federal Law on Corruption allows removal of government officials for failure to take measures to combat corruption. Article 13.3 broadly requires all legal entities in the Russian Federation to implement an ethics and compliance program to combat corruption and conflict of interest. This law also applies to Russian government budgetary entities, such as schools.

Resources to Report Corruption

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13. Bilateral Investment Agreements

The United States and Russia signed a bilateral investment treaty (BIT) in 1992, though it was not ratified by Russia and is not in force. The U.S.-Russian dialogue to enact a new BIT ceased after Russia's attempted annexation of Crimea in 2014.

Bilateral Taxation Treaties

The United States and Russia have shared an income tax treaty since 1992, which is designed to address the issue of double taxation and fiscal evasion with respect to taxes on income and capital. Full text of the treaty: http://www.irs.gov/pub/irs-trty/russia.pdf. There is some concern that taxation requirements have sometimes been used in Russia as a way to "raid" or illegally take possession of foreign companies, particularly small and medium enterprises.

14. OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) announced in the wake of Russia's actions in Ukraine that it had suspended consideration of any new financing and insurance transactions in Russia. Prior to this decision, OPIC had been authorized to provide loans, loan guarantees (financing), and investment insurance against political risks to U.S. companies investing in Russia since 1992. Detailed information about OPIC's programs can be accessed at www.opic.gov. In July 2014, the Export-Import Bank (Ex-Im

Bank) imposed a hold on all new transactions for exports to Russia. Ex-Im Bank previously provided export credit insurance with payment coverage for both commercial and political risks and offered foreign buyers financing (with extended repayment terms) to buy U.S.-made capital goods and services.

15. Labor

The Russian labor market remains fragmented, characterized by limited labor mobility across regions and by substantial differences in wages and employment conditions. Earnings inequalities are substantial, enforcement of labor standards is relatively weak, and collective bargaining is underdeveloped. Employers regularly complain about shortages of qualified skilled labor. This phenomenon is due in part to weak linkages between the education system and the labor market. In addition, the economy suffers from a general shortage of highly skilled labor. On the other hand, a large number of inefficient enterprises with high vacancy levels offer workers unattractive, uncompetitive salaries and benefits.

The rate of actual unemployment (calculated according to ILO methodology) averaged 5.6 percent in 2015. Average unemployment in urban districts (5.0 percent) was much lower than in rural districts (8.6 percent). As of the end of 2015, the Republic of Ingushetia in the North Caucasus and the Republic of Tyva in the Siberia Federal District had the highest unemployment rates in the country – 30.7 percent and 21.9 percent, respectively. In stark contrast, the unemployment rate was 1.7 percent, in both of the major cities of Moscow and St. Petersburg. Real wages declined sharply in 2015, by 9.5 percent year-on-year, leading to deteriorating living standards for most households. Private business must compete with those SOEs where Russians have indicated in recent surveys they would prefer to work given better salaries and benefits. The public sector, which maintains inefficient and unproductive positions, directly accounts for about 25 percent of the workforce.

President Putin signed Federal Law No. 357-FZ in 2015, which changed the regulatory system for labor migration to Russia for citizens who could enter the country visa-free. Instead of work permits, employment licenses ("patents"), previously available for personal services workers, became available to an expanded group including construction companies. The law, which became effective January 1, 2015, introduced additional economic mechanisms for managing labor migration flows. Official statistics, as of the fourth quarter 2015, registered 1,830,000 migrant workers who had valid work permits (from visa countries) or work "patents" (from visa-free Central Asian countries). Workers from the Eurasian Economic Union countries (Armenia, Belarus, Kazakhstan, and Kyrgyzstan) are eligible to work in Russia without work authorization documents. Nevertheless, Russia's Federal Migration Service estimated the number of unregistered migrants at as many as three million people. Migrant workers are concentrated in the construction, retail, and housing and utilities sectors, and the Russian government enacted sectoral restrictions for foreign workers in 2016 that cap the percentage of foreign workers allowed in different industries.

The 2002 Labor Code governs labor standards in Russia. The enforcement of worker safety rules continues to be a major issue, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety standards and the Russian government employs a limited number of labor inspectors. Employers cannot reduce employment in light of worsening market conditions without being required to make severance payments. Regulations to monitor labor abuses and health and safety standards are enforced through normal labor inspections. The minimum wage is currently set below the government's official poverty line. The government generally complies with International Labor Organization (ILO) conventions protecting worker rights, though enforcement is often insufficient.

By law, labor unions are independent of the government. In practice, labor unions complain of numerous alleged violations of their rights, including government interference in labor union matters, unwillingness and procrastination by state authorities to register unions, acts of anti-union discrimination and the absence of an effective mechanism to ensure protection against such acts, denial of facilities for workers' representatives, violation of the right to bargain collectively, and failure of the state authorities to investigate those violations. Chapters 6 and 7 of the Labor Code regulate Russia's collective bargaining process and agreements. According to Chapter 61 of the Labor Code, collective labor dispute resolution can involve conciliation procedures and commissions, the use of intermediaries, labor arbitrage, intervention by state bodies (notably the Federal Service for Labor and Employment), and strikes.

16. Foreign Trade Zones/Free Ports/Trade Facilitation

Russia has 32 special economic zones (SEZs), which fall in one of four categories: industrial and production zones; technology and innovation zones; tourist and recreation zones; and port zones. An Audit Chamber investigation of SEZs in April 2016 found the zones had no impact on the Russian economy since they were founded in 2005. Progress in attracting foreign investors to SEZs is uneven. The majority of SEZ investments are still listed as "planned," meaning investors are still able to back out of commitments. The Russian government has been hesitant to go forward with major SEZ infrastructure projects. Detailed information about the benefits and results of Russia's SEZs can be found at the MED's SEZ website: http://www.economy.gov.ru/minec/activity/sections/sez/main/.

In addition to SEZs, the Russian government also began designating "territories for advanced development" in the Russian Far East in 2015. There are currently 10 areas with this designation which offer similar benefits to SEZs, but which fall under the authority of the Ministry for the Russian Far East, not the Ministry of Economic Development.

17. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Russia's GDP was 74.6 trillion rubles in 2015, estimated at USD 1.2 trillion, compared to USD 1.861 trillion in 2014, according to International Monetary Fund data. The latest Russian foreign direct investment (FDI) statistics show a sharp decline in the stock of U.S. FDI into Russia in the first half of 2015.

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		**USG or international statistical source**		**USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other**
Economic Data	**Year**	**Amount**	**Year**	**Amount**	

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Host Country Gross Domestic Product (GDP) ($T USD)	2015	$1.2 trillion (IMF estimate)	2014	$1.861 trillion	www.worldbank.org/en/country
Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M USD, stock positions)	2015	$2.5 billion	2014	$9.2 billion	**http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm (http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm)**
Host country's FDI in the United States ($M USD, stock positions)	2015	$7.4 billion	2014	$5.3 billion	Central Bank of Russia: **http://www.cbr.ru/eng/statistics/?PrtId=svs (http://www.cbr.ru/eng/statistics/?PrtId=svs)**
Total inbound stock of FDI as % host GDP	2015	0.2%	2014	0.5%	N/A

*Russian statistical source: Central Bank of Russia

Table 3: Sources and Destination of FDI

Table 3 shows flows of foreign investment into and out of Russia by country in 2014. According to Russian statistical practice, total foreign investment numbers include direct investment (FDI), portfolio investment, and other investment (largely trade credits). FDI flows between Russia and both Cyprus and the Netherlands is consistently high, reflecting the fact that most FDI coming from these countries is likely either returning or reinvested Russian capital channeled through subsidiaries or off-shore "shell" vehicles. While official statistics by country for 2014 are not yet available, overall FDI outflows from Russia were USD 57 billion in 2015 after a peak of USD 150 billion in 2014.

Direct Investment from/in Russian Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	272,229	100%	Total Outward	307,185	100%
Cyprus	92,158	34%	Cyprus	96,506	31%
Netherlands	40,039	15%	Brit Virgin Islands	43,282	14%
The Bahamas	20,946	8%	Netherlands	37,747	12%
Bermuda	14,465	5%	Austria	35,635	12%
Germany	11,526	4%	Switzerland	16,643	5%

Source: **http://data.imf.org/CDIS (http://data.imf.org/CDIS)**

Table 4: Sources of Portfolio Investment

Portfolio investment into Russia has fallen since 2014. The table below shows the top destinations for Russian portfolio investment.

Portfolio Investment Assets in 2014								
Top Five Partners *(Millions, US Dollars)*								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	56,630	100%	All Countries	3,723	100%	All Countries	57,932	100%

Luxembourg	16,664	29%	Jersey	1,423	38%	Ireland	18,813	32%
Ireland	15,328	27%	UK	496	13%	Netherlands	3,736	6%
Cyprus	5,679	10%	United States	490	13%	Cyprus	3,493	6%
Netherlands	4,652	8%	Cyprus	466	13%	UK	1,998	3%
UK	3,118	6%	Netherlands	137	4%	Germany	336	0.5%

Source: cpis.imf.org

18. Contact for More Information

Embassy of the United States of America

Attention: Economic Section

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Moscow 121099, Russian Federation

+7 (495) 728-5000, ext. 5179 (Economic Section)
